

December 13, 2018

Rating:

OUTPERFORM

Price:

\$377.03

12-Month Price Target:

\$440.00

Analysts

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Company Information

Shares Outst (M) 179.5

52-Week Range \$244.59 - \$387.46

Market Cap (M) \$67,676.9

Enterprise Value (M) \$75,927

REV (M)		in \$		
FYE Dec	2017A	2018E	2019E	
Q1 Mar	2,696.3A	3,408.8A	7,381.3E	
Q2 Jun	2,789.6A	4,002.2A	7,532.4E	
Q3 Sep	2,984.7A	6,824.4A	7,733.4E	
Q4 Dec	3,288.2A	7,188.5E	7,497.5E	
Year*	11,758.8A	21,423.9E	30,144.7E	

EPS		in \$		
FYE Dec	2017A	2018E	2019E	
Q1 Mar	(1.33)A	(3.36)A	1.25E	
Q2 Jun	(1.33)A	(3.06)A	1.22E	
Q3 Sep	(2.92)A	2.90A	1.57E	
Q4 Dec	(3.05)A	1.98E	1.43E	
Year*	(8.67)A	(1.25)E	5.47E	
P/E	NM	NM	68.9x	

Pricing data provided by Thomson Reuters.

*Numbers may not add up due to rounding.

Tesla (TSLA)

Rollercoaster Ride with Model 3 Production Turning the Corner; Initiating at OP

The Wedbush View

We are initiating coverage of Tesla with an OUTPERFORM rating and \$440 price target. Tesla has evolved into one of the most dynamic technology innovators over the last 30 years and, in our opinion, has put itself into an esteemed category of companies such as Apple and Amazon that have revolutionized consumer buying habits and behaviors over the last decade. In our opinion, the company has the most impressive product roadmap out of any technology/auto vendor around and will be a “game changing” driving force for the EV transformation over the next decade with Model 3 front and center. While no investor will argue the innovation that Elon Musk & Co. have built at Tesla as the success is evident for anyone that has driven on a road over the last few years, the real fundamental question around what the stock is worth is complex given the confluence of issues surrounding the name heading into 2019. From a potential capital raise on the horizon, laser-focused Model 3 production metrics and profitability trajectory, lingering SEC/DOJ overhang stemming from Musk’s “going private” tweetstorm, to China TAM and the investments needed to get there, are just a few of the main debatable investor topics around Tesla over the next 12 to 18 months. While in this initiation report we will dig into each of these key topics in more detail, overall seeing the forest through the trees we believe Tesla has the most innovative product roadmap in the technology space over the next 5 to 10 years. With its flagship Model 3 poised to catalyze a broader move to electronic vehicles, renewable energy, and eventually broader ambitions for Musk and Tesla that will lead to further innovations around battery production and self-driving cars looking out into 2020 and beyond that should further transform Tesla into a technology titan over the coming years despite the near-term turbulence around the name. In a nutshell, the Tesla Model 3 production analysis we have built is the linchpin to our broader bull thesis and valuation on the company as we look out on the potential of this disruptive consumer technology play over the next decade. While this will be a bumpy road and never a smooth straight line with Musk & Co. at the helm, we believe Tesla has a golden opportunity to ramp Model 3 unit sales in 2019 and beyond and thus translate into massive FCF and profitability as we look out into 2022-2030 based on this detailed auto unit analysis.

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Investment Overview

Tesla has evolved into one of the most dynamic technology innovators and, in our opinion, has put itself into an esteemed category of companies such as Apple and Amazon that have revolutionized consumer buying habits and behaviors over the last decade. In our opinion Tesla has the most impressive product roadmap out of any technology/ auto vendor around and will be a “game changing” driving force for the EV transformation over the next decade with Model 3 front and center. While no investor will argue the innovation that Elon Musk & Co. have built at Tesla as the success is evident for anyone that has driven on a road over the last few years, the real fundamental question around what the stock is worth is complex given the confluence of issues at Tesla/Musk & Co. While there are a number of hot topic variables around China demand and the impact on the company's model over the next decade, ramping Model 3 production, the Musk dynamic, Autopilot functionality (and missteps/crashes) and a stretched balance sheet, we ultimately believe Tesla has an opportunity to morph itself into an “Apple-like consumer brand.”

Bear Case

Model 3 production hits a major bottleneck in Fremont, fails to meet demand/GM sees pressure. Street's FY20 projections fail to materialize with mid-range/base models softer demand. Capital raise.

Base Case

Model 3 production and demand targets met; profitability ramp in FY19 and beyond meets Street expectations with the mid-range and base vehicle on time. No capital raise.

Bull Case

Model 3 production hits the 10k per week target earlier than expected. GM exceeds target goals with success of mid-range and base model exceeding demand. China TAM materializes; Giga 3 ramps.

Upcoming Catalysts

Earnings in late January. Model 3 production trajectory heading into 2019. Settling of lingering DOJ investigation and shareholder lawsuits.

Primary Value Driver

Model 3 demand trajectory over the next 2 to 3 years coupled by production yield and ability to meet EV demand at target GM's. Profitability/cash flow projections for 2020 and beyond are key.

Valuation

With \$22 of earnings power by 2025 and our FCF projections of \$5 billion by 2025 we believe a valuation of \$440 is fair. At \$440 Tesla would trade at EV/Rev of 1.2x and EV/EBITDA of 9x.

Investor Sentiment

Positive

Company Description

Tesla, Inc. designs, develops, manufactures, and sells electric vehicles, and energy generation and storage systems. The company's core automotive segment with Model 3 as its flagship vehicle has established itself as a leader in the EV segment.




Price Performance



Source: EDI



WEDBUSH | DEBATE

Debatable Point	Our Thoughts	Time Frame	Impact
Are Model 3 production levels sustainable at current GM and profitable trajectories into 2019/2020?	Tesla has turned the corner on Model 3 production, demand looks strong into 2019/2020 and beyond based on underlying drivers for the EV market, and the financial model now is poised to generate improved profitability and cash flow that puts the risk of a capital raise in the background for now. We believe a production run rate trending towards 7k per week in early 2019 and annual production close to 325k-350k is a firm base to build upon as Musk & Co. aim for its target goal of 10k per week.	12-18 months	
Is a capital raise on the horizon given Tesla's debt load?	Based on our current model and GM analysis of Model 3 production over the next three years we believe Tesla's profitability trajectory and cash generation should be ample to meet the company's ~\$1.5 billion of debt obligations around the corner in the coming year with two more tranches due in March 2019 (\$920 million) and November 2019 (\$566 million). We believe the model is self-funding from here, however there is still a chance Tesla does a capital raise to give it more balance sheet flexibility.	6-12 months	
Is a \$35k base Model 3 a reality or a pipe dream with production slated for 2019?	We believe the company's \$35k base Model 3 ramp will be at the center of the bull/bear thesis on Tesla heading into 1H2019 as starting production in 1Q19 (target plan as of now) will be another step forward for Musk and Tesla to pour water on the lingering Tesla bear thesis. We note there are some Tesla skeptics that believe a \$35k base model is a pipe dream and will never hit the market given the current product yield and cost structure around Model 3 production which speaks to why it is so important for Musk & Co. to produce mid-range (\$46k) and base model (\$35k) versions during the course of 2019.	6-12 months	

We are Initiating Coverage of Tesla with an OUTPERFORM rating and \$440 Price Target

We are initiating coverage of Tesla with an OUTPERFORM rating and \$440 price target. Tesla has evolved into one of the most dynamic technology innovators over the last 30 years and, in our opinion, has put itself into an esteemed category of companies such as Apple and Amazon that have revolutionized consumer buying habits and behaviors over the last decade. In our opinion, the company has the most impressive product roadmap out of any technology/auto vendor around and will be a “game changing” driving force for the EV transformation over the next decade with Model 3 front and center. While no investor will argue the innovation that Elon Musk & Co. have built at Tesla as the success is evident for anyone that has driven on a road over the last few years, the real fundamental question around what the stock is worth is complex given the confluence of issues surrounding the name heading into 2019. From a potential capital raise on the horizon, laser-focused Model 3 production metrics and profitability trajectory, lingering SEC/DOJ overhang stemming from Musk’s “going private” tweetstorm, to China TAM and the investments needed to get there, are just a few of the main debatable investor topics around Tesla over the next 12 to 18 months. While in this initiation report we will dig into each of these key topics in more detail, overall seeing the forest through the trees we believe Tesla has the most innovative product roadmap in the technology space over the next 5 to 10 years. With its flagship Model 3 poised to catalyze a broader move to electronic vehicles, renewable energy, and eventually broader ambitions for Musk and Tesla that will lead to further innovations around battery production and self-driving cars looking out into 2020 and beyond that should further transform Tesla into a technology titan despite the near-term turbulence around the name. The company’s efficiency in the EV space is in a league of its own from a battery cost perspective and unparalleled Supercharger network that continues to be major competitive advantages as established automakers look to go after market share vs. Tesla in 2019 and beyond.

Tesla in the driver's seat on the EV secular shift. With the overall EV market representing between 1.5% and 2% of new vehicles sold worldwide today with industry forecasts indicating overall EV sales could reach 8% of all new vehicles by 2025, it is clear that Tesla is in the driver's seat on the EV market and is poised to see demand accelerate over the coming years especially with mid-range and lower price points on the horizon, which will be a major catalyst for growth. Gross margins ramping by 350 bps to 400 bps or more over the next three years will be key to the model transformation of Tesla, with battery technology efficiencies over the coming years being driven by Fremont and Gigafactory 1 and 3. On the gross margin front the big conundrum is that Tesla needs to ramp production of its lower priced \$46k mid-range and eventually \$35k base models to drive broader consumer demand, while importantly increasing GM's toward the mid 20% range over time. Herein lies a major challenge for Musk & Co. during the course of 2019/2020, as the company has navigated many production and cash flow challenges over the past year with another hurdle and balancing act ahead, as Tesla drives mass production on Model 3 and must maintain an optimal financial profile during this transition. While there are a number of hot topic variables around China demand and the impact on the company's model over the next decade, ramping Model 3 production, the Musk dynamic, Autopilot functionality (and missteps/crashes) and a stretched balance sheet, we ultimately believe Tesla has an opportunity to morph itself into an "Apple-like consumer brand" with the next 12 to 18 months, a pivotal window for the company to further separate itself from traditional US/German auto players now looking to double down on the EV market over the next decade that have been late to the game.

Balancing act for Musk & Co. in the near term with debt payments ahead. With profitability targets moved up ahead of Street expectations based on the company's impressive 3Q performance, which surprised even the most bullish investors and Model 3 production now past the Nightmare on Elm Street bottlenecks and issues seen over the last year, it all comes down to gauging consumer demand and the product roadmap for the mid-range and base versions (\$35k) heading into next year. Will there be enough production and profitability to halt a capital raise, which remains a lingering overhang on the name, herein lies a major debate around Tesla. To this point, while we believe the company's model is self-funding from a cash flow perspective going forward and could now pay down debt tranches over the next year, we do believe a capital raise of between \$2 billion to \$2.5 billion could be still on the docket (30%-35% chance, in our opinion) over the next 12 to 18 months as Musk & Co. aggressively invest into core Tesla production as well as a host of related initiatives (Gigafactory 3, Tesla Energy, Semi, solar, ride sharing) over the coming years and thus give themselves more flexibility on the balance sheet/cap ex if they (and the board) decide to head down this path. In a nutshell, Tesla has turned the corner on Model 3 production, demand looks strong into 2019/2020 and beyond based on underlying drivers for the EV market, and the financial model now is poised to generate improved profitability and cash flow that puts the risk of a capital raise in the background for now. However, there is no room for major production errors or another distraction from Musk over the coming year given its cash flow balancing act needed, coupled with the company still caught in the midst of ongoing shareholder lawsuits/DOJ investigation relating to the "going private saga" from a few months ago. Looking out over the next decade, we believe Tesla and Model 3 have the opportunity to transform consumer auto buying behavior and capitalize on this unprecedented market opportunity and its leadership position in the EV market with the Street now focusing on the demand opportunity rather than the production issues, which had been clouding the company's future over the last year. From a capex perspective we believe levels between \$2.2 billion to \$2.3 billion appear fair for FY2019 with a ramp to \$2.7 billion in FY20 based on our analysis with more resources around Gigafactory 3 in China front and center as a driver for potentially higher levels of investments looking ahead.

More Model 3 Production = Key to Cash Flow and Profitability Ramp

2019 will be a crucial year to monitor the supply/demand balance around Model 3 production out of Tesla's flagship Fremont factory while carefully monitoring the GM and profitability trajectory as demand data points on the base price version of \$35k are crucial to the company's overall capital structure. We also note with US tax credits on electronic vehicles going from \$7,500 in 2018 to \$3,750 in 1H19 and \$1,875 in 2H19, coupled by the current price of fuel, many investors are betting that demand drivers around Model 3 production could fade on the high end of the market (coupled by heightened competition from the likes of Porsche and Jaguar) and result in a significant capital raise by Tesla over the next 3 to 6 months in light of its mounting debt pile and thus representing a major overhang on the stock. To this point, as evidenced last quarter, Tesla's profitability ramped/has been accelerated vs. the Street's original expectations as the stepped-up Model 3 production out of Fremont with bottlenecks in the rear view mirror, better expense controls, and an eventual move toward more vertical production over the next 3-4 years now appears on the horizon and thus took a big step forward over the past few months. This has been a huge relief to investors, coupled by the recent settling of Musk/Tesla's case with the SEC stemming from his going private tweets, which has resulted in a stock rebounding dramatically from the lows seen in early September.

Capital raise not on the horizon...but. Based on our current model and GM analysis of Model 3 production over the next three years, we believe Tesla's profitability trajectory and cash generation should be ample to meet the company's ~\$1.5 billion of debt obligations around the corner in the coming year with two more tranches due in March 2019 (\$920 million) and November 2019 (\$566 million). After a rollercoaster ride around Model 3 production hitting the elusive 5k per week now in the books, we believe the next goal will be around reaching a production run rate of 10k Model 3s per week over the next 12 to 24 months and importantly, hitting target GMs in the 25% range on Model 3. We believe a production run rate trending toward 7k per week in early 2019 and annual production close to 325k-350k is a firm base to build upon as Musk & Co. aim for its target goal of 10k per week. While production yields are still not at capacity in Fremont and Gigafactory 1, we believe the company's \$35k base Model 3 ramp will be at the center of the bull/bear thesis on Tesla heading into 1H2019 as starting production in 1Q19 (target plan as of now) will be another step forward for Musk and Tesla to pour water on the lingering Tesla bear thesis. We note there are some Tesla skeptics that believe a \$35k base model is a pipe dream and will never hit the market given the current production yield and cost structure around Model 3 production, which speaks to why it is so important for Musk & Co. to produce mid-range (\$46k) and base model (\$35k) versions during the course of 2019. As of today the delivery estimate for the mid-range vehicle is for 6 to 10 weeks from now, which we are modeling to slowly improve as production ramps during the course of 2019. We also believe pent up in demand around Model Y and Roadster (Semi still a wild card in our opinion) will be incremental demand drivers starting in 2020 which we are modeling as further catalysts for Tesla as the company expands its leadership market on the EV market over the next decade. Geographically speaking, a key incremental growth driver for Tesla over the coming years will be opening up new consumer market opportunities in Europe and particularly China front and center. In China with reduced tariffs, an untapped EV market opportunity, and Gigafactory 3 on the horizon, we believe this represents a golden market opportunity for Musk & Co. starting in 2020 and in our opinion is a key ingredient in Tesla's recipe for success over the next decade as illustrated in our Wedbush Tesla Delivery Model (*pages 9-10*).

Model 3 Production Ramp Analysis-A Deeper Dive and Key to the Tesla Bull Case

Based on our scenario analysis we believe Tesla's GM profile can stay in the 20%+ range even with a mid-ish teen GM profile initially (could be lower to start) on Model 3 \$35k base versions slated to hit the market during the course of 2019. While the skeptics have serious doubts around the production trajectory for the base Model 3 version slated to start in 1Q19, we ultimately believe the success of this lower end, mainstream model and mid-range version will be key to Tesla's ability to navigate through its debt and cash flow obligations over the next 12 to 18 months without having to raise additional capital. As of now Tesla is paying off its first tranche of debt and not factoring in a capital raise to its forecast although this could change if base Model 3 production hits a major snag in 2019 and/or disruptions hitting consistent 7k production targets eventually moving to 10k manifests out of Fremont and Gigafactory. With current Revs/Unit for Model 3 in the \$60k range this past quarter having driven GM to ~23%, we believe these levels can sustain through most of 2019 and 2020 although with the \$46k mid-range and \$35k base model on the way this could see downward pressure especially in 1H19 with a lift back towards the low 20's with the march to 25% on tap by 2025. We note the base \$35k Model 3 goal is on target to go live on the factory floor in late 1Q19 and while profitability will be in the red the first 6 to 9 months and margin dilutive, we believe this model along with more affordable leasing options will open up a much broader consumer market opportunity for Tesla over the next few years. We note that Model 3 gross margin was guided to track in line with 4Q as in 3Q (~20%), while on the other hand Model S and X margins should also stay constant despite China trade tensions and a handful of other near-term pressures. With long-term gross margins targets of roughly 25% for Model 3 expected to be an aggressive high bar to hit over time, the Street will be laser focused on this balancing act over the next 12 to 18 months especially with the ramp of the \$35k model on the horizon.

Scenario analysis around Model 3 production. While Tesla struggled for the last year to reach the elusive 5k per week threshold, now the company is producing at a run rate of roughly 6k per week (850 per day) with the next major goal to hit 10k per week in production as the next key target during 2019. The key now for Tesla and Musk is around further expansion into higher consumer volume segments with price points on the mid range and base range Model 3 appealing to the broader consumer buyer over the coming year. While the upside is increased market share in these higher volume segments the ultimate worry is that with the current cost to produce Model 3 at \$28k - \$34k based on industry analysis how can you sell a car at ~\$35k? To this point its all about production yield, more vertical integration expansion, and further production out of Gigafactory 1 and eventually Gigafactory 3 (flagship Shanghai build out under way) set to see production in 2H19. While further efficiencies on Model 3 production and an expected ramp in R&D over the coming 12 to 18 months to fund a host of projects around Model 3, autopilot, ride sharing, and other skunk works initiatives, we believe over the next 5 to 10 years a more efficient production ramp and process will enable Tesla to see a discernible jump in profitability and margins beginning in 2020. In our model, we take a deep dive and an analysis of where we view unit volume and average price points for Tesla's auto production going forward. There are two major focal points from the perspective of the Street on this unit volume model: 1.) Can unit volume reach over 1 million units annually by 2025 and approach 2 million units annually by 2030 and 2.) Will the EBIT and FCF ramp be quick enough that Tesla does not need a significant capital raise in the next 12 to 18 months. Ultimately while demand for Model 3 could move around over the coming quarters especially with a new range of low to mid-market models hitting in 2019, we firmly believe Tesla is the linchpin around driving the transformational move to the EV shift happening among consumers worldwide. Tesla production yields improving and moving to more vertical-like production over the coming years with more cost efficiencies from its Fremont and Gigafactories (with China a key X-factor) will be crucial to the company's success going forward. While there will be speed bumps along the way, we believe getting worldwide production annually to between 750k and 1 mm units by 2020 is an achievable target that will further bolster the Tesla growth thesis for the coming years as this remains a key hurdle to hit over the next 2 years. With Tesla focusing more on vertically integrating battery packs, storage products, and lithium-ion cells we believe the company is poised to see much more production efficiency (and improved GM) out of Gigafactory 1 and Fremont which remains the foundation for Tesla to find a firm profitability and GM ramp on Model 3 production especially with the all-important mid-range and base models hitting the road in 2019.

Summary of Wedbush Tesla Delivery Model Analysis and Thoughts

We have done an in depth analysis around Model 3 deliveries (see Wedbush Tesla Delivery Model *pages 9-10*) and importantly trying to model out the scenario we believe is most likely at this point around the demand trajectory for Tesla's auto units between now and 2030. There are a number of variables around production levels out of Fremont/Gigafactory with Model 3 yields, gauging demand levels/timing of Model Y/Roadster/Pick-Up, and a host of other factors relating to overall EV sales in the consumer market worldwide that drive our bottoms up analysis. That said, the key to our Tesla auto unit analysis through 2030 is based on Model 3 demand especially with the mid-range (\$46k) and base model (\$35k) poised to catalyze broader volumes of adoption for the company over the next decade. In the near term we are modeling Tesla to ship 401 million auto deliveries in 2019, up 60%+ year over year with Model 3 units on a demand trajectory to exceed 300 million. We believe the mix of Model 3 vs. other units will peak at 76% and trend towards the mid to high 60% range from 2021 through 2030. Beginning in 2020 we are forecasting shipments of the Model Y to start to taking hold and ramp aggressively over the next few years along with sales of Roadster and potentially the Pick Up vehicle. With revenue per unit currently trending toward \$70k, we believe the volumes driven by lower priced mid-range and base model will drive this figure downward to \$55k by 2025 and eventually level out in the ~\$50k range between 2025 and 2030 based on our Tesla Delivery Model. In a nutshell, this Tesla Model 3 production analysis we have built is the linchpin to our broader bull thesis and valuation on the company as we look out in the potential of this disruptive consumer technology play over the next decade. While this will a bumpy road and never a smooth straight line with Musk & Co. at the helm, we believe Tesla has a golden opportunity to ramp Model 3 unit sales in 2019 and beyond and thus translate into massive FCF and profitability as we look out into 2022-2030 based on this detailed auto unit analysis.

Valuation Thoughts

The major bull/bear debate on Tesla centers around the valuation and how to analyze an auto/technology company with so many production/GM variables around its EV leadership position with Model 3 front and center, unmatched brand awareness and technology around battery efficiency, and a technology roadmap that in our opinion is unparalleled over the next decade. With clean technology, luxury automakers, and other auto technology/industrial players as valuation barometers on the trifecta valuation metrics of: PE, Price/Sales, and EV/EBITDA the a valuation range of \$340 to \$360 for Tesla is fair even with a premium multiple to the group with a EV/Rev of 2.0x and EV/EBITDA of 13x off FY20 numbers. However, as we view Tesla as a disruptive technology vendor along the likes of Apple, Google, and Amazon and believe a triangulated, longer term valuation approach for Tesla is more accurate to capture the intrinsic value in this innovative technology roadmap. To this point, looking out a more normalized model with \$22 of earnings power by 2025 and our FCF projections of \$5 billion by 2025 we believe a valuation of \$440 per share is fair for Tesla. At \$440 Tesla would trade at a PE of 20x our 2025 EPS estimate and trade at 17x our long-term FCF target of \$5 billion, while representing an EV/Rev of 1.2x and EV/EBITDA of 9x.

Wedbush Tesla Delivery Model

(in thousands, except for Units & Rev. Per Unit)

	2018E					2019E					2020E				
	1Q18A	2Q18A	3Q18A	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E	1Q20E	2Q20E	3Q20E	4Q20E	FY20E
Unit Delivery															
Model S & X	21,815	22,319	27,710	27,288	99,132	21,597	22,096	27,433	27,015	98,141	21,273	21,654	27,159	26,124	96,209
Model 3	8,182	18,449	56,065	63,376	146,072	66,274	75,641	80,734	80,488	303,136	79,529	92,509	97,768	100,489	370,295
Model Y, Roadster G. II, Pick-up, Semi				-		-	-	-	-			12,000	15,000	18,000	45,000
Total Units	29,997	40,768	83,775	90,664	245,204	87,871	97,737	108,167	107,503	401,277	100,802	126,163	139,927	144,613	511,504
Year-over-year Growth															
Model S & X	-12.9%	1.3%	6.9%	-4.0%	-2.3%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.5%	-2.0%	-1.0%	-3.3%	-2.0%
Model 3			25154.5%	4010.0%	8180.7%	710.0%	310.0%	44.0%	27.0%	107.5%	20.0%	22.3%	21.1%	24.9%	22.2%
Model Y, Roadster G. II, Pick-up, & Semi											NA	NA	NA	NA	NA
Total Units	19.7%	85.1%	220.5%	202.5%	137.6%	192.9%	139.7%	29.1%	18.6%	63.7%	14.7%	29.1%	29.4%	34.5%	27.5%
Unit Delivery Mix															
Model S & X	73%	55%	33%	30%	40%	25%	23%	25%	25%	24%	21%	17%	19%	18%	19%
Model 3	27%	45%	67%	70%	60%	75%	77%	75%	75%	76%	79%	73%	70%	69%	72%
Model Y, Roadster G. II, Pick-up, Semi												10%	11%	12%	9%
Total Delivery	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Revenue Per Unit															
	\$ 85,405	\$ 76,478	\$ 70,168	\$ 68,976	\$ 72,640	\$ 71,996	\$ 65,618	\$ 59,783	\$ 58,147	\$ 63,440	\$ 67,244	\$ 61,353	\$ 55,538	\$ 54,019	\$ 58,850
	5.1%	-16.4%	-11.7%	-14.2%	-12.2%	-15.7%	-14.2%	-14.8%	-15.7%	-12.7%	-6.6%	-6.5%	-7.1%	-7.1%	-7.2%
Revenue - Auto. Delivery															
	\$ 2,561,881	\$ 3,117,865	\$ 5,878,305	\$ 6,253,689	\$ 17,811,740	\$ 6,326,369	\$ 6,413,320	\$ 6,466,511	\$ 6,250,981	\$ 25,457,182	\$ 6,778,357	\$ 7,740,479	\$ 7,771,313	\$ 7,811,778	\$ 30,101,927

Sources: Company Reports and Wedbush Securities, Inc. estimates

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Wedbush Tesla Delivery Model

(in thousands, except for Units & Rev. Per Unit)

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
Unit Delivery										
Model S & X	98,133	99,114	100,106	98,104	95,160	91,354	87,700	84,192	80,824	77,591
Model 3	446,946	536,336	616,786	703,136	787,512	866,264	952,890	1,048,179	1,152,997	1,233,707
Model Y, Roadster G. II, Pick-up, Semi	145,350	203,490	248,258	292,944	333,956	367,352	404,087	444,496	488,946	528,061
Total Units	690,430	838,940	965,149	1,094,184	1,216,629	1,324,970	1,444,677	1,576,867	1,722,767	1,839,359
Year-over-year Growth										
Model S & X	2%	1%	1%	-2%	-3%	-4%	-4%	-4%	-4%	-4%
Model 3	21%	20%	15%	14%	12%	10%	10%	10%	10%	7%
Model Y, Roadster G. II, Pick-up, & Semi	223%	40%	22%	18%	14%	10%	10%	10%	10%	8%
Total Units	35.0%	21.5%	15.0%	13.4%	11.2%	8.9%	9.0%	9.2%	9.3%	6.8%
Unit Delivery Mix										
Model S & X	14%	12%	10%	9%	8%	7%	6%	5%	5%	4%
Model 3	65%	64%	64%	64%	65%	65%	66%	66%	67%	67%
Model Y, Roadster G. II, Pick-up, Semi	21%	24%	26%	27%	27%	28%	28%	28%	28%	29%
Total Delivery	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Reveue Per Unit										
	\$ 56,496	\$ 57,061	\$ 56,490	\$ 55,643	\$ 54,530	\$ 53,439	\$ 52,371	\$ 51,323	\$ 50,297	\$ 49,291
	-4%	1%	-1%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Revenue - Auto. Delivery	\$ 39,006,381	\$ 47,870,576	\$ 54,521,454	\$ 60,883,466	\$ 66,342,739	\$ 70,805,529	\$ 75,658,564	\$ 80,929,787	\$ 86,649,471	\$ 90,663,412

Sources: Company Reports and Wedbush Securities, Inc. estimates

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Tesla, Inc. (TSLA)

Income Statement

(\$ in millions, except per share)

	2017A					2018E					2019E					2020E
	1Q17A Mar-17	2Q17A Jun-17	3Q17A Sep-17	4Q17A Dec-17	FY17A Total	1Q18A Mar-18	2Q18A Jun-18	3Q18A Sep-18	4Q18E Dec-18	FY18E Total	1Q19E Mar-19	2Q19E Jun-19	3Q19E Sep-19	4Q19E Dec-19	FY19E Total	FY20E Total
Revenue																
Automotive	2,289.6	2,286.6	2,362.9	2,702.2	9,641.3	2,735.3	3,357.7	6,098.8	6,482.3	18,674.1	6,621.2	6,761.1	6,896.4	6,685.3	26,964.0	32,007.5
Energy & Storage	213.9	286.8	317.5	298.0	1,116.3	410.0	374.4	399.3	360.6	1,544.4	438.7	441.8	455.2	414.7	1,750.5	2,602.8
Services & Other	192.7	216.2	304.3	288.0	1,001.2	263.4	270.1	326.3	345.6	1,205.5	321.4	329.6	381.8	397.5	1,430.2	1,425.2
Total Revenue	2,696.3	2,789.6	2,984.7	3,288.2	11,758.8	3,408.8	4,002.2	6,824.4	7,188.5	21,423.9	7,381.3	7,532.4	7,733.4	7,497.5	30,144.7	36,035.4
<i>Year-over-Year Growth</i>	135%	120%	30%	44%	68%	26%	43%	129%	119%	82%	117%	88%	13%	4%	41%	20%
<i>Qtr-over-Qtr Growth</i>	18%	3%	7%	10%	NM	4%	17%	71%	5%	NM	3%	2%	3%	-3%	NM	NM
Total Cost of Revenue	2,018.5	2,115.5	2,525.4	2,833.3	9,492.4	2,934.1	3,367.2	5,275.7	5,664.6	17,241.6	5,823.8	5,920.5	6,032.1	5,840.6	23,617.0	27,918.1
Gross Profit	678.0	674.1	459.3	455.0	2,266.3	474.6	635.0	1,548.7	1,524.0	4,182.3	1,557.5	1,611.9	1,701.4	1,657.0	6,527.7	8,117.4
Operating Expenses																
Research & Development	272.8	312.0	280.6	295.1	1,160.5	306.0	320.2	285.1	330.7	1,242.0	501.9	512.2	525.9	524.8	2,064.8	2,329.1
Selling, General, & Administrative	559.0	487.0	601.6	623.7	2,271.2	624.0	738.9	642.1	661.3	2,666.3	716.0	760.8	765.6	734.8	2,977.1	3,628.7
Total Operating Expenses	831.8	799.0	882.1	918.8	3,431.7	929.9	1,059.1	927.2	992.0	3,908.2	1,217.9	1,273.0	1,291.5	1,259.6	5,042.0	5,957.8
Operating Income	(153.8)	(124.9)	(422.8)	(463.8)	(1,165.3)	(455.3)	(424.0)	621.5	532.0	274.1	339.5	339.0	409.9	397.4	1,485.7	2,159.6
Stock-based compensation	(103.7)	(116.0)	(112.7)	(134.3)	(466.8)	(141.6)	(197.3)	(204.7)	(210.0)	(753.7)	(150.0)	(115.0)	(206.0)	(220.0)	(691.0)	(470.0)
Interest and other income	(114.4)	(144.9)	(136.0)	(181.8)	(576.9)	(182.0)	(107.6)	(145.4)	(220.0)	(655.1)	(160.0)	(175.0)	(165.0)	(180.0)	(680.0)	(560.0)
Income Before Taxes	(371.9)	(385.8)	(671.4)	(779.9)	(2,209.0)	(779.0)	(729.0)	271.3	102.0	(1,134.7)	29.5	49.0	38.9	(2.6)	114.7	1,129.6
Income Taxes	25.3	15.6	(0.3)	(9.1)	31.5	5.6	13.7	16.6	12.2	48.2	3.5	5.9	4.7	(0.3)	13.8	158.1
Net Income	(330.3)	(336.4)	(619.4)	(675.4)	(2,240.6)	(709.6)	(717.5)	311.5	89.7	(1,182.9)	26.0	43.1	34.2	(2.3)	101.0	971.4
Net Income - Pro-forma*	(215.0)	(220.4)	(488.5)	(513.1)	(1,436.9)	(567.9)	(520.2)	516.2	354.7	(217.1)	226.0	223.1	290.2	267.7	1,007.0	1,685.4
EPS	(2.04)	(2.04)	(3.70)	(4.01)	(13.52)	(4.19)	(4.22)	1.75	0.50	(6.79)	0.14	0.24	0.18	(0.01)	0.55	5.07
EPS - Pro-forma*	(1.33)	(1.33)	(2.92)	(3.05)	(8.67)	(3.36)	(3.06)	2.90	1.98	(1.25)	1.25	1.22	1.57	1.43	5.47	8.80
Shares Outstanding - Diluted	162.1	165.2	167.3	168.3	165.7	169.1	170.0	178.2	179.5	174.2	181.0	183.0	185.0	187.0	184.0	191.5
<i>* Does not include amortization of goodwill and intangibles, stock-based compensation and restructuring costs.</i>																
	1Q17A	2Q17A	3Q17A	4Q17A	FY17A	1Q18A	2Q18A	3Q18A	4Q18E	FY18E	1Q19E	2Q19E	3Q19E	4Q19E	FY19E	FY20E
Margins																
Gross Margin	25.1%	24.2%	15.4%	13.8%	19.3%	13.9%	15.9%	22.7%	21.2%	19.5%	21.1%	21.4%	22.0%	22.1%	21.7%	22.5%
Operating Margin	-5.7%	-4.5%	-14.2%	-14.1%	-9.9%	-13.4%	-10.6%	9.1%	7.4%	1.3%	4.6%	4.5%	5.3%	5.3%	4.9%	6.0%
Net Margin - Pro forma	-8.0%	-7.9%	-16.4%	-15.6%	-12.2%	-16.7%	-13.0%	7.6%	4.9%	-1.0%	3.1%	3.0%	3.8%	3.6%	3.3%	4.7%
Percent of Revenues																
Automotive	84.9%	82.0%	79.2%	82.2%	82.0%	80.2%	83.9%	89.4%	90.2%	87.2%	89.7%	89.8%	89.2%	89.2%	89.4%	88.8%
Energy & Storage	7.9%	10.3%	10.6%	9.1%	9.5%	12.0%	9.4%	5.9%	5.0%	7.2%	5.9%	5.9%	5.9%	5.5%	5.8%	7.2%
Services & Other	7.1%	7.7%	10.2%	8.8%	8.5%	7.7%	6.7%	4.8%	4.8%	5.6%	4.4%	4.4%	4.9%	5.3%	4.7%	4.0%
Research & Development	10.1%	11.2%	9.4%	9.0%	9.9%	9.0%	8.0%	4.2%	4.6%	5.8%	6.8%	6.8%	6.8%	7.0%	6.8%	6.5%
Selling, General, & Administrative	20.7%	17.5%	20.2%	19.0%	19.3%	18.3%	18.5%	9.4%	9.2%	12.4%	9.7%	10.1%	9.9%	9.8%	9.9%	10.1%
Year-over-Year Growth																
Automotive	123.1%	93.5%	10.0%	35.5%	51.8%	19.5%	46.8%	158.1%	139.9%	93.7%	142.1%	101.4%	13.1%	3.1%	44.4%	18.7%
Energy & Storage	841.3%	7165.8%	1260.7%	126.8%	515.4%	91.6%	30.6%	25.8%	21.0%	38.4%	7.0%	18.0%	14.0%	15.0%	13.3%	48.7%
Services & Other	96.1%	156.7%	140.8%	81.0%	113.9%	36.7%	25.0%	7.2%	20.0%	20.4%	22.0%	22.0%	17.0%	15.0%	18.6%	-0.4%
Total Revenue	135.1%	119.6%	29.9%	43.9%	68.0%	26.4%	43.5%	128.6%	118.6%	82.2%	116.5%	88.2%	13.3%	4.3%	40.7%	19.5%
Operating Income	-3.0%	-26.9%	-341.4%	184.2%	267.3%	196.0%	239.6%	-247.0%	-214.7%	-123.5%	-174.6%	-179.9%	-34.0%	-25.3%	442.1%	45.4%
EPS - pro forma *	133.8%	26.1%	-511.3%	343.5%	476.2%	153.2%	129.4%	-199.2%	-164.8%	-85.6%	-137.2%	-139.8%	-45.9%	-27.6%	-539.1%	60.8%
Sequential Growth																
Automotive	14.8%	-0.1%	3.3%	18.0%	NM	1.2%	22.8%	81.6%	6.3%	NM	2.1%	2.1%	2.0%	-3.1%	NM	NM
Energy & Storage	62.8%	34.0%	10.7%	-6.1%	NM	37.6%	-8.7%	6.7%	-9.7%	NM	21.7%	0.7%	3.0%	-8.9%	NM	NM
Services & Other	21.1%	12.2%	40.8%	-5.3%	NM	-8.5%	2.6%	20.8%	5.9%	NM	-7.0%	2.6%	15.8%	4.1%	NM	NM
Total Revenue	18.0%	3.5%	7.0%	22.0%	NM	3.7%	17.4%	70.5%	5.3%	NM	2.7%	2.0%	2.7%	-3.1%	NM	NM
Operating Income	-5.7%	-18.8%	238.6%	201.5%	NM	-1.8%	-6.9%	-246.6%	-14.4%	NM	-36.2%	-0.2%	20.9%	-3.1%	NM	NM
EPS - pro forma *	92.9%	0.6%	118.9%	129.9%	NM	10.1%	-8.9%	-194.7%	-31.8%	NM	-36.8%	-2.4%	28.7%	-8.7%	NM	NM

Sources: Company Reports and Wedbush Securities, Inc. estimates

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Tesla, Inc. (TSLA)
Balance Sheet (\$ in millions)

	FY17	FY18		
	Dec-17	Mar-18	Jun-18	Sep-18
ASSETS				
Cash And Equivalents	3,367.9	2,665.7	2,236.4	2,967.5
Restricted Cash	155.3	120.2	146.8	158.6
Accounts Receivable	515.4	652.8	569.9	1,155.0
Inventory	2,263.5	2,565.8	3,324.6	3,314.1
Other Current Assets	268.4	379.4	422.0	325.2
Total Current Assets	6,570.5	6,383.9	6,699.8	7,920.49
Operating Lease Vehicles	4,116.6	2,315.1	2,282.0	2,186.1
Solar Energy Systems	6,347.5	6,346.4	6,340.0	6,301.5
Property and Equipment	10,027.5	10,519.2	10,969.3	11,246.3
Goodwill and Intangible Assets	421.7	407.7	364.7	356.7
MyPower Customer Notes	456.7	449.8	434.8	422.9
Restricted Cash	441.7	433.8	400.0	396.8
Other Assets	273.1	415.5	419.3	431.8
Total Assets	28,655.4	27,271.4	27,910.0	29,262.7
LIABILITIES				
Accounts Payable	2,390.3	2,603.5	3,030.5	3,597.0
Accrued Liabilities	1,731.4	1,898.4	1,815.0	1,990.1
Deferred Revenue	1,015.3	536.5	576.3	570.9
Resale Value Guarantees	787.3	629.1	674.3	604.9
Customer Deposits	853.9	984.8	942.1	905.8
Current Portion of LT Debt	896.5	1,998.0	2,103.2	2,106.5
Total Current Liabilities	7,674.7	8,650.4	9,141.4	9,775.3
Long-Term Debt	9,418.3	8,763.7	9,513.4	9,672.6
Deferred Revenue	1,177.8	818.3	795.8	950.1
Resale Value Guarantees	2,309.2	756.8	584.9	455.8
Other Liabilities	2,443.0	2,561.9	2,607.5	2,555.3
Total Liabilities	23,023.0	21,551.0	22,642.9	23,409.1
Total Shareholder Equity	5,632.4	5,720.4	5,267.1	5,853.6
Total Liabilities And Shareholders Equity	28,655.4	27,271.4	27,910.0	29,262.7

Sources: Company Reports and Wedbush Securities, Inc. estimates

Valuation

With \$22 of earnings power by 2025 and our FCF projections of \$5 billion by 2025 we believe a valuation of \$440 is fair. At \$440 Tesla would trade at EV/Rev of 1.2x and EV/EBITDA of 9x.

Risks to the Attainment of Our Price Target and Rating:

- Potential capital raise to increase liquidity represents a potential overhang for Tesla.
- Meeting production targets on Model 3 will be key as any major bottleneck out of Fremont will have significant negative ramifications for both growth and GM.
- The ongoing shareholder lawsuits and DOJ investigation represents a risk for investors given some of these wild cards.
- Tesla's ability to penetrate China as a market opportunity is key to its long-term growth and any regulatory and/or production issues out of Gigafactory 3 would be a clear negative growth catalyst for the name.

Analyst Certification

We, Daniel Ives and Strecker Backe, certify that the views expressed in this report accurately reflect our personal opinions and that we have not and will not, directly or indirectly, receive compensation or other payments in connection with our specific recommendations or views contained in this report.

Mentioned Companies

Company	Rating	Price	Target
Apple	OUTPERFORM	\$169.10	\$275.00
Amazon.com	OUTPERFORM	\$1,663.54	\$2,100.00
Alphabet	OUTPERFORM	\$1,073.73	\$1,350.00

Investment Rating System:

OUTPERFORM: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

UNDERPERFORM: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe of the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating distribution (as of December 13, 2018)	Investment Banking Relationships (as of December 13, 2018)
OUTPERFORM: 60.29%	OUTPERFORM: 11.71%
NEUTRAL: 38.53%	NEUTRAL: 1.53%
UNDERPERFORM: 1.18%	UNDERPERFORM: 0.00%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

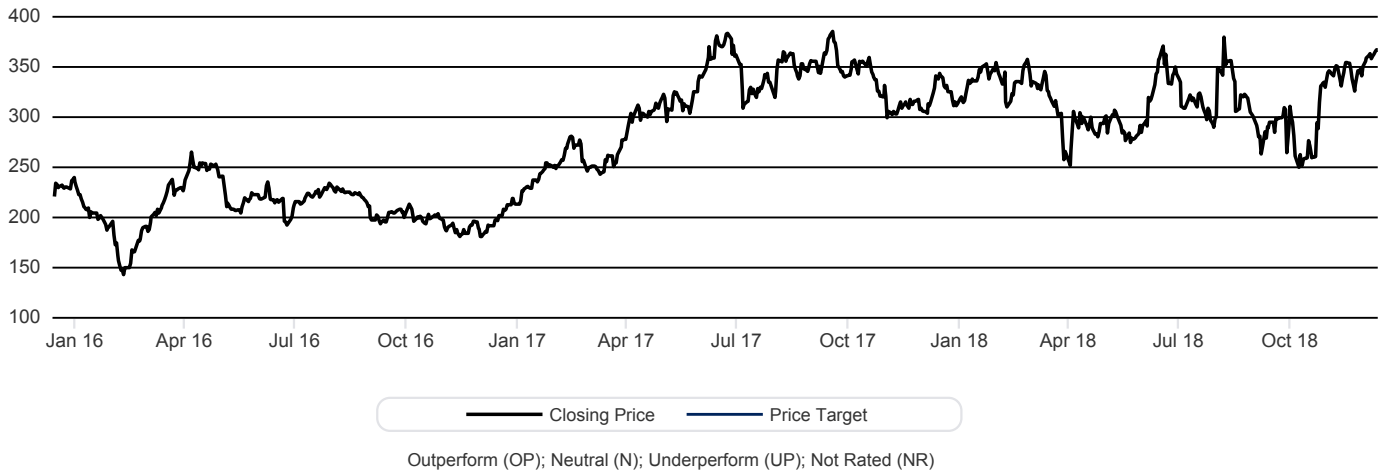
Company Specific Disclosures

1. WS makes a market in the securities of Apple, Amazon.com and Alphabet.

Price Charts

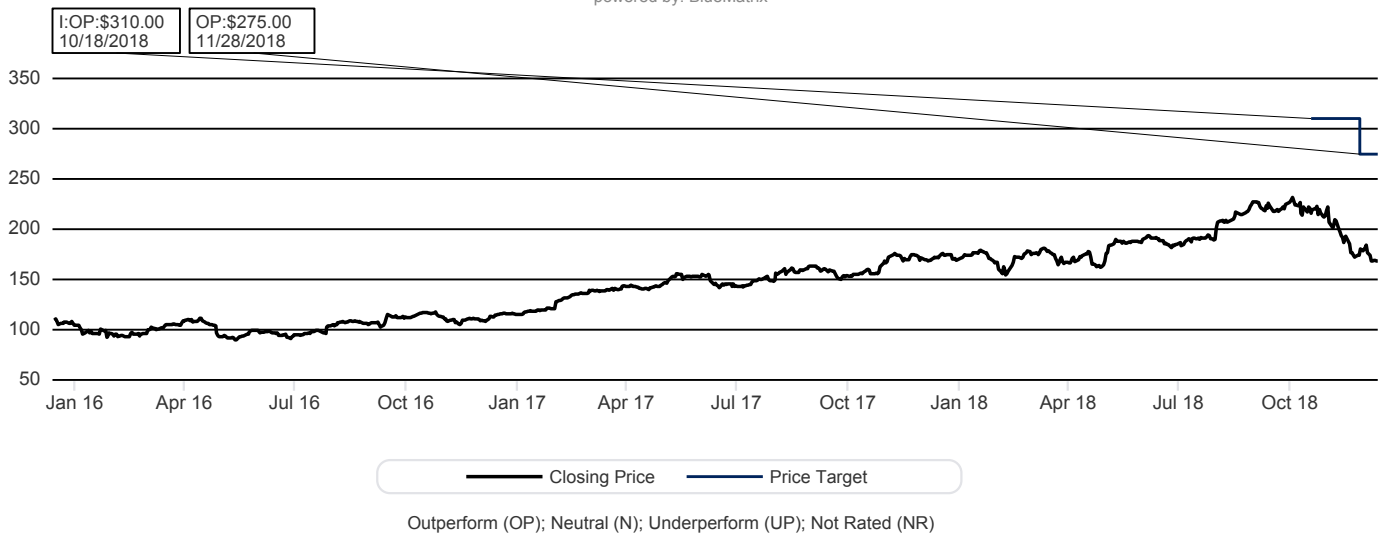
Tesla Rating History as of 12-12-2018

powered by: BlueMatrix



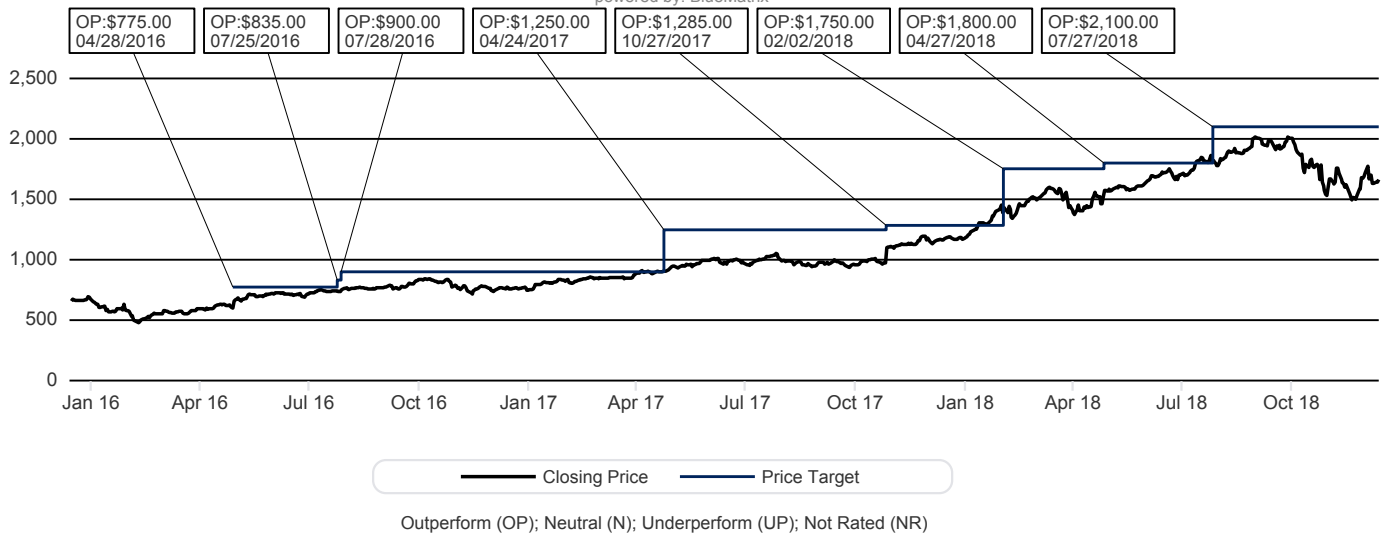
Apple Rating History as of 12-12-2018

powered by: BlueMatrix



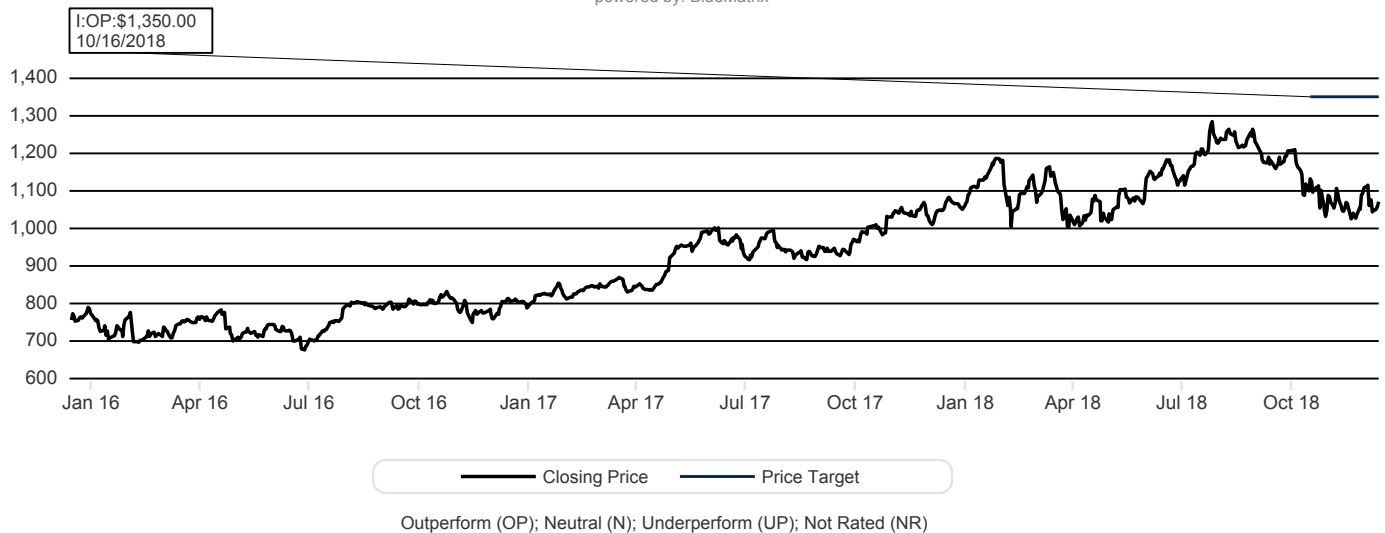
Amazon.com Rating History as of 12-12-2018

powered by: BlueMatrix



Alphabet Rating History as of 12-12-2018

powered by: BlueMatrix



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Disclosure information regarding historical ratings and price targets is available: <http://www.wedbush.com/ResearchDisclosure/DisclosureQ118.pdf>

*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research>

Applicable disclosure information is also available upon request by contacting Leslie Lippai in the Research Department at (212) 833-1375, by email to leslie.lippai@wedbush.com, or the Business Conduct Department (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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